

Budget Management and Financial Planning

Indiana State Library
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AGENDA



- ✓ Budget Development
- ✓ Budgeting with Property Tax Caps
- ✓ Anticipating and Managing Budget Deficits
- ✓ Forecasted Cash Flow Analysis

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Overview

- Fiscal challenges result from rising costs, declining property tax revenue, and lack of economic growth
- Greater need to anticipate funding shortfalls
- More emphasis on long-term fiscal planning and financial policies
- Financial projections are a necessary component of major policy decisions

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Budget Development

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Resources

- Annual Financial Report (2017)
- 1782 Notice (2018)
- Budget Order (2018)
- Line-Item budgets from Gateway (Form 1's)

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Budget Development

Step	Action Item	Resources
Step 1	Estimate revenues	Historical data (Annual Reports), DLGF Reports
Step 2	Determine maximum budget amounts that can be funded from estimated revenues	Match expenses with revenues – “Balanced Budget”
Step 3	Determine desired ending cash balance	Recommended minimum = not less than 15% of operating disbursements
Step 4	Identify options to meet budgetary goals	Increase revenue, reduce expenses

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Estimating Revenue – Property Tax

STATE OF INDIANA
DEPARTMENT OF LOCAL GOVERNMENT FINANCE

2018 BUDGET ORDER

Fund	Certified Budget	Certified AV	Certified Levy	Certified Rate
0061 RAINY DAY	\$75,000	\$1,808,971,845	\$0	\$0.0000
Budget approved for displayed amount.				
0101 GENERAL	\$2,466,910	\$1,808,971,845	\$1,562,952	\$0.0864
Budget approved for displayed amount.				
Rate reduced to remain within statutory levy limitation.				
0180 DEBT SERVICE	\$0	\$1,808,971,845	\$0	\$0.0000
0181 DEBT PAYMENT	\$460,198	\$1,808,971,845	\$495,658	\$0.0274
Budget has been reduced and approved for the displayed amt.				
Rate reduced due to reduction of operating balance according to IC 6-1.1-17-22.				
Unit Total:			\$2,058,610	\$0.1138

Times 1.037 equals \$1,620,781

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Estimating Revenues – Circuit Breaker Credits

2018 Circuit Breaker Report								
Unit	Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	% of Levy (Total CB divided by Certified Levy)
Public Library	General	0101	\$1,562,952	\$1,591,601	\$ 4,845	\$ 272,579	\$ 277,424	17.8%

Est. 2018 Property Tax Levy	\$1,620,781
Times Circuit Breaker % of Levy	<u>17.8%</u>
Est. 2018 Circuit Breaker Credits	<u>\$ 287,689</u>

Source: DLGF tax caps report ("Impact of the Property Tax Caps")
<http://www.in.gov/dlgf/9598.htm>

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Estimating Revenue – Misc. Receipts

FROM 1782 NOTICE (BUDGET FORM 2)

DLGF ESTIMATES OF MISCELLANEOUS
REVENUES FOR BUDGET YEAR 2018
ESTIMATED AMOUNTS TO BE RECEIVED

	Column A July 1, 2017 - Dec 31, 2017	Column B Jan 1, 2018 - Dec 31, 2018
0101 GENERAL		
R112 Financial Institution Tax Distribution	\$ 1,079	\$ 1,776
R114 Vehicle/Aircraft Excise Tax Distribution	51,310	81,983
R135 Commercial Vehicle Excise Tax Distribution (CVET)	13,865	23,984
R138 Local Income Tax (LIT) Certified Shares	360,303	666,267
R913 Other Receipts	25,300	50,600
Fund Total	\$ 451,857	\$ 824,610

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Estimated Revenues - Total

Property Tax	\$ 1,620,781
Circuit Breaker Credits	(287,689)
Mis. Receipts	824,610
Total Est. Revenues	\$ 2,157,702

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BUDGET DEVELOPMENT EXAMPLE

	#1	#2	#3
	Unfunded	Funded (not balanced)	Balanced
Receipts	\$ 2,157,700	\$ 2,157,700	\$ 2,157,700
Disbursements	2,600,000	2,400,000	2,157,700
Net Cash Flow	(442,300)	(242,300)	-
Beginning Cash	430,000	430,000	430,000
Est. Ending Cash	<u>\$ (12,300)</u>	<u>\$ 187,700</u>	<u>\$ 430,000</u>
<i>Operating Balance</i>	-0.5%	7.8%	19.9%

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Budgeting with Property Tax Caps (Circuit Breaker Credits)

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CIRCUIT BREAKER CREDITS

- Tax caps that limit taxpayer liability
- If calculated tax exceeds cap, credit is applied to tax bill
- Percentage caps are based on property type

Tax Cap based on Gross Property Value	Property Type
1%	Residential Homestead
2%	Agricultural Land Residential Rental Long-Term Care Facility
3%	Commercial Personal Property

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CIRCUIT BREAKER CREDITS

- Credits are a direct reduction of a taxing unit's property tax revenue
- Credits affect actual property tax distributions and have no effect on "certified" levies
- Actual losses due to circuit breaker credits may not be determined until tax bills are prepared



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Sample Tax Bill



	Taxing District #1	Taxing District #2
Residential Home Value	\$300,000	\$300,000
Net Assessed Value (after deductions)	\$162,750	\$162,750
District Tax Rate	\$1.8433	\$2.5478
Tax Liability before Circuit Breaker	\$3,000	\$4,000
Tax limit @ 1%	\$3,000	\$3,000
Circuit Breaker Tax Credit	\$0	\$1,000

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Sample Taxing District Allocation of Circuit Breaker Credits

Taxing District	Taxing Unit Rate	% of Total Tax Rate	Allocation of C.B. Credit
County	\$ 0.4863	19%	\$ 191
Township	0.0251	1%	10
School	0.8184	32%	321
Library	0.0733	3%	29
Municipality	0.9605	38%	377
Special District	0.1842	7%	72
Total District Tax Rate	\$ 2.5478	100%	\$ 1,000

In this example, the library would be allocated 3% of the total circuit breaker credits issued for this taxing district.

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Factors that Impact Circuit Breaker Credits

- Changes in Assessed Value
 - Property values increase, circuit breaker credits decrease
- Changes in Property Tax Rates\Levies
 - Property tax rates increase, circuit breaker credits increase

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How to Build Property Tax Caps in the Budget

- Direct Impact to Available Revenue
 - Reduction of property taxes
- Adjust budgeted appropriations (expenses) accordingly

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Anticipating and Managing Budget Deficits

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Financially Distressed Unit – Possible Causes

- Reliance on DLGF to make budget reductions
- Annual budgets do not match spending with receipts
- Dwindling cash reserves
- Significant property tax losses due to circuit breaker credits
- No plans or procedures in place to manage budget deficits
- No fiscal policies
- No long-term fiscal planning



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Assess Your Situation



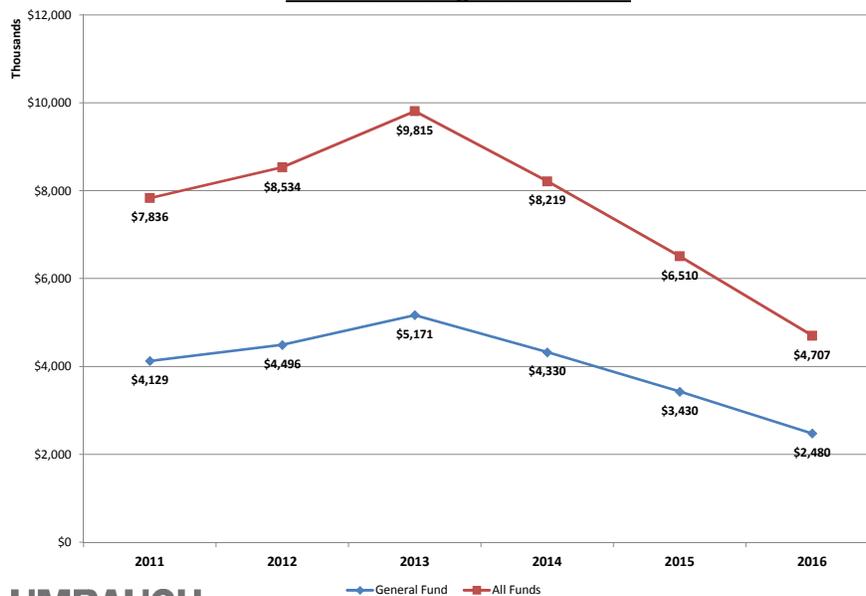
- Are fund balances trending downward?
- Do budgeted appropriations exceed estimated annual receipts?
- Are fund balances less than 15% of disbursements?
- Are there temporary cash flow shortages?

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Historical Ending Cash Balances



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Fund Report Pay 2018 Example Library			
	FUND: 0061 AV: \$1,808,971,845	FUND: 0101 AV: \$1,808,971,845	FUND: 0180 AV: \$1,808,971,845
1A. Gross Budget Est	\$75,000	\$2,744,459	\$0
1B. Est Prop Cap Impact	0	277,549	0
1C. Net Budget Est	75,000	2,466,910	0
2. Expenditures J1-Dec	55,000	1,442,504	272,384
3. Add App J1 - Dec	0	0	0
4A. Temporary Loans	0	0	0
4B. Loans Not Pd 12/31	0	0	0
5. TOTAL EST EXP	130,000	4,186,963	272,384
6. Cash Balance 6/30	639,848	889,293	190,200
7. Dec Tax Collection	0	553,365	89,968
8A. Misc Rev Jul - Dec	0	451,857	9,221
8B. Misc Rev Total	0	824,610	0
9. TOTAL FUNDS	639,848	2,719,125	289,389
10. NET AMT REQ	-509,848	1,467,838	-17,005
11. Operating Balance	509,848	95,114	17,005
12. TOTAL (10+11)	0	1,562,952	0
13A. PTRC	0	0	0
13B. LOIT	0	0	0
14. NET AMT TO RAISE	0	1,562,952	0
15. Levy Excess	0	0	0
16. TAX LEVY	\$0	\$1,562,952	\$0
TAX RATE	\$0.0000	\$0.0864	\$0.0000

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Fund Report Pay 2018 Example Library		
	FUND: 0101 AV: \$1,808,971,845	
1A. Gross Budget Est	\$2,744,459	
1B. Est Prop Cap Impact	277,549	
1C. Net Budget Est	2,466,910	
2. Expenditures J1-Dec	1,442,504	
3. Add App J1 - Dec	0	
4A. Temporary Loans	0	
4B. Loans Not Pd 12/31	0	
5. TOTAL EST EXP	4,186,963	
6. Cash Balance 6/30	889,293	
7. Dec Tax Collection	553,365	
8A. Misc Rev Jul - Dec	451,857	
8B. Misc Rev Total	824,610	
9. TOTAL FUNDS	2,719,125	
10. NET AMT REQ	1,467,838	
11. Operating Balance	95,114	
12. TOTAL (10+11)	1,562,952	
13A. PTRC	0	
13B. LOIT	0	
14. NET AMT TO RAISE	1,562,952	
15. Levy Excess	0	
16. TAX LEVY	\$1,562,952	
TAX RATE	\$0.0864	

Receipts:	
Property Tax (Line 16)	\$ 1,562,952
Plus: Levy Freeze LOIT (Line 13B)	-
Less: Prop. Tax Caps (Line 1B)	(277,549)
Plus: Misc Rev (Line 8B)	<u>824,610</u>
Total Receipts	2,110,013
Less: Disbursements	<u>(2,466,910)</u>
Net Cash Flow	<u>\$ (356,897)</u>

Structural Budget Deficit 

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The Importance of Cash Flows Projections



- Identifies cash shortages
- Identifies money available to invest
- Estimates the availability of cash - timing
- Allows time to prepare contingency plans
- Contributes to better, more timely decision making and financial management
- Necessary to evaluate policy decisions

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Cash Flow Analysis



Historical (Baseline) Cash Flows

- Begin with historical analysis of past 2 to 3 years to identify trends in receipts and disbursements
- Determine whether past trends will continue

Forecasted Cash Flows

- Include future estimates of circuit breaker tax credits
- Consider changes in property tax appeals, uncollectible taxes, or tax base changes
- Make adjustments for declining revenues
- Include scheduled changes in personnel costs to reflect salary adjustments or expected increases in health care costs

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Cash Flow Analysis



Forecasted Cash Flows (Cont'd)

- Consider changes in utility costs, supply costs, liability insurance etc.
- Include major maintenance and capital expenditures
- Include changes in debt service obligations
- Forecast expected receipts and expenditures 3 to 5 years into the future

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Monthly Cash Flow Projections

- Monthly projection of receipts and disbursements by fund
- Need to know timing of receipts and disbursements
 - Property Tax Receipts: June and December
 - PERF payments: Quarterly
- Identifies potential cash flow shortages throughout the year
- Develop a plan to manage shortfalls

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Identify Deficits

- Identify the “causes” that may affect your taxing unit
- Review trends from historical activity
- Understand the difference between a temporary cash flow shortage and a structural budget deficit
 - Prepare monthly cash flow projections if necessary



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Temporary and Permanent Deficits

- Temporary Cash Flow Shortage
 - Typically caused by the timing of receipts (property tax received in June and December)
- Structural Budget Deficit (Permanent)
 - Annual disbursements exceed annual receipts

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Causes of Revenue Shortfalls

- **Timing Issues (Temporary)**
 - Delayed tax rate certification
 - Delinquencies (collection rates historically below 100%)
- **Erroneous Assessed Values (Eligible for Appeal)**
 - A.V. used to calculate tax bills much lower than certified A.V.
- **Taxpayer Refunds (Eligible for Appeal)**
 - Due to Erroneous assessed values
 - Large number of assessment appeals settled in favor of the taxpayer
 - Abatements not applied



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Causes of Revenue Shortfalls (Cont'd)

- **Structural Budget Deficit (Permanent)**
 - Disbursements exceed available revenue sources
- **Circuit Breaker Credits (Permanent)**
 - Reduction of property tax distribution



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Scenario #1 Temporary Cash Flow Shortage or Structural Budget Deficit?

	<u>Jan - Mar</u>	<u>April - June</u>	<u>July - Sept</u>	<u>Oct - Dec</u>	<u>Totals</u>
Receipts	\$ 405,250	\$ 2,486,050	\$ 405,250	\$ 2,486,050	\$ 5,782,600
Disbursements	<u>1,445,000</u>	<u>1,445,000</u>	<u>1,445,000</u>	<u>1,445,000</u>	<u>5,780,000</u>
Net Receipts	(1,039,750)	1,041,050	(1,039,750)	1,041,050	2,600
Beginning Cash	<u>232,400</u>	<u>(807,350)</u>	<u>233,700</u>	<u>(806,050)</u>	<u>232,400</u>
Ending Cash	\$ (807,350)	\$ 233,700	\$ (806,050)	\$ 235,000	\$ 235,000

Temporary shortages in 1st and 3rd Quarters. No structural budget deficit (slight increase in overall cash).

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Scenario #2 Temporary Cash Flow Shortage or Structural Budget Deficit?

	<u>Jan - Mar</u>	<u>April - June</u>	<u>July - Sept</u>	<u>Oct - Dec</u>	<u>Totals</u>
Receipts	\$ 511,250	\$ 2,342,050	\$ 561,250	\$ 2,342,050	\$ 5,756,600
Disbursements	<u>1,450,000</u>	<u>1,450,000</u>	<u>1,450,000</u>	<u>1,650,000</u>	<u>6,000,000</u>
Net Receipts	(938,750)	892,050	(888,750)	692,050	(243,400)
Beginning Cash	<u>940,000</u>	<u>1,250</u>	<u>893,300</u>	<u>4,550</u>	<u>940,000</u>
Ending Cash	\$ 1,250	\$ 893,300	\$ 4,550	\$ 696,600	\$ 696,600

Structural budget deficit – \$243K of cash on hand used to fund budget.

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Scenario #3 Temporary Cash Flow Shortage or Structural Budget Deficit?

	Jan - Mar	April - June	July - Sept	Oct - Dec	Totals
Receipts	\$ 361,250	\$ 2,442,050	\$ 361,250	\$ 2,442,050	\$ 5,606,600
Disbursements	1,445,000	1,445,000	1,445,000	1,445,000	5,780,000
Net Receipts	(1,083,750)	997,050	(1,083,750)	997,050	(173,400)
Beginning Cash	232,400	(851,350)	145,700	(938,050)	232,400
Ending Cash	\$ (851,350)	\$ 145,700	\$ (938,050)	\$ 59,000	\$ 59,000

Both - Temporary shortages in 1st and 3rd Quarters and overall budget deficit (\$173K of cash on hand used to fund budget)

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Anticipate, Estimate, Manage

	Jan - Mar	April - June	July - Sept	Oct - Dec	Totals
Receipts:					
Property Tax	\$ -	\$ -	\$ -	\$ 900,000	\$ 900,000
Circuit Breaker Tax Credits				(90,000)	(90,000)
Property Tax Shortfall (3%)				(27,000)	(27,000)
Auto Excise, CVET, FIT	-	-	-	90,000	90,000
CAGIT/CAGIT PTRC		38,000		38,000	76,000
Other Misc. Revenues	43,000	43,000	43,000	43,000	172,000
Total Receipts	43,000	81,000	43,000	954,000	1,121,000
Disbursements:					
Personal Services	196,000	196,000	196,000	196,000	784,000
Supplies	23,000	23,000	23,000	23,000	92,000
Other Services and Charges	56,000	56,000	56,000	56,000	224,000
Capital Outlays	-	-	-	138,000	138,000
Total Disbursements	275,000	275,000	275,000	413,000	1,238,000
Net Cash Flow	(232,000)	(194,000)	(232,000)	541,000	(117,000)
Beginning Cash	186,000	(46,000)	(240,000)	(472,000)	186,000
Estimated Ending Cash	\$ (46,000)	\$ (240,000)	\$ (472,000)	\$ 69,000	\$ 69,000
Cash Reserve Percentage				Is this acceptable?	5.6%

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Problem Identified – Now What?

- Develop Financial Policies
 - What services to provide
 - How to fund services
 - Minimum cash reserves
 - Align policies with budget
- Explore Funding Options
 - Revenue increases
 - Spending reductions
- Develop a Financial Plan



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Develop Financial Policies

Key Considerations:

- What needs to be accomplished?
 - Staffing levels and compensation, maintenance programs, technology, security, capital improvements, etc.
- What is the appropriate level of resources to apply towards priorities\services?
- What services should be cost based?
- What are cash reserve targets for operating funds?



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Cash Reserves

Why are Cash Reserves Important?

- Ability to manage cash flow shortages without the need for external short-term borrowing
- Provides funding source to respond to unforeseen events, emergencies, or opportunities
- Demonstrates financial stability



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Cash Reserves (Cont'd)

What is the Suggested Minimum Cash Reserve?

- 15% to 20% of operating disbursements
 - Depends on timing of resources and specific needs
- Considerations:
 - Primary funding source received in June and December
 - Recurring funding requirements (payroll)
 - Timing of debt service payments

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Examples of Financial Policies

- We will maintain an operating balance in all funds that support core operations equal to no less than 15% of budgeted expenses
- Special program services will recover x% of their costs through direct fees
- Employees will share in x% of health insurance premium costs
- Staffing levels will be based on an industry standard (then specify which industry standard you will use)
- Computer equipment will be replaced based on pre-determined conditions (example: every 3 years)
- The Rainy Day Fund will be used under these conditions:

- Budget surplus will be handled as follows:

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Temporary Cash Flow Shortages – Options

- Temporary cash transfers from other funds
- Defer non-essential spending (capital outlays)
- Short-Term Debt (Tax Anticipation Warrants)
 - Temporary loans payable within 12 months from future property tax settlements
- Provides funding for needed expenditures until property tax distributions are received
- Sell assets
- Use Rainy Day Fund monies

Options

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Permanent Budget Deficits - Options

- Examine staffing levels and distribution of workload
- Eliminate positions through attrition
- Offer voluntary furloughs/reduced hours of work
- Institute hiring/wage freezes



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Permanent Budget Deficits – Options (Cont'd)

- Investigate ways to reduce health insurance costs or attain less expensive coverage
 - Higher deductible plans
 - Change employer\employee contributions
- Re-evaluate user fees (charges for services)
- Consolidate service delivery with other units of government



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Permanent Budget Deficits – Options (Cont'd)

- Reduction of Appropriations
 - Estimate realistic expenditures through year-end
 - Formalize budget reductions with the passage of a “Reduction of Appropriation” resolution
- Discontinue Additional Appropriations
 - Only request additional expenditures (appropriations) in extenuating circumstances
 - Determine if the “additional” expenditure can be deferred to a future period or funded by reducing an appropriation in another area

Options

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Budget to Avoid Deficits – Be Proactive

- Determine the maximum amount of disbursements that can be budgeted based on the estimated receipts (net of circuit breaker loss)
- Review most recent year of actual disbursements (not budget) and determine what items need to be adjusted
- Develop a budget that results in an appropriate ending cash balance (reserve)
- Prepare a balanced budget - match disbursements with estimated annual receipts



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True Up Budget

- Budget will be adopted based upon **estimated** receipts and disbursements
- May need to make course corrections throughout the year based on:
 - Actual circuit breaker tax credits
 - Actual receipts (shortfall/excess)
 - Unforeseen expenditures
 - Other factors?

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Key Takeaway's

- Develop a balanced budget
- Identify the “causes” that may affect your taxing unit – know your risk
- Prepare cash flow estimates and continually monitor.
- Develop a plan to manage cash flows and absorb losses
- Be proactive not reactive
- Start planning NOW!!



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QUESTIONS



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